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Analysts, Inc.

Press Release

Most e-Sourcing Vendors in No-Value Zone Says New Sourcing Report

Plenty of demand, little real value, and too much snake oil, says B2B Analyst report that covers 43 sourcing vendors.

CAMBRIDGE - August 2, 2002 - B2B Analysts, the only industry analyst firm to focus on the value that business applications provide, today released a report on the new strategic sourcing space. "It's a new space," said David Dobrin, lead author of the report, "Until this report, there was little coherent agreement even on what should go into a strategic sourcing solution. We interviewed 43 vendors, then asked their partners, venture capitalists, some smart CIOs, and many purchasing experts. Then we applied some common sense."

To most observers, "sourcing technology" has become synonymous with reverse auctions. "Wrong, wrong, wrong," says Dobrin. "Procurement people are smarter than that. They recognize that reverse auctions have a place, but their overriding aim is to get a better deal for their companies along all the dimensions of cost—quality and reliability matter just as much as price."

The variety of technologies that promise them help is almost bewildering. The report divides up sourcing technologies into eight categories: strategy, analytics, RFx (i.e., request for proposal, request for quote, etc.), award, contract, monitoring, and, of course, reverse auction.

"An even more important segmentation," says Dobrin, "is by spend category. Most companies buy assets, real estate, legal services, temporary services, and freight, as well as the famous indirect and direct materials. Indeed, the typical company divides its spend into anywhere from 100+ spend categories. And each category has a different buying process, which requires different techniques and technologies."

Among the vendors that have escaped the no-value zone are those that concentrate on a single spend category. "Companies like Logistics.com are able to return real value quickly to their customers," says Dobrin, "through a combination of focus, services, and technology."

The few vendors that so far are providing real value are those that are as much service and intellectual capital companies as they are software companies. According to the report, solutions in this space must aim at helping procurement departments buy smarter. "And you can't do that simply with technology," says Dobrin. "In the report, we mention the 12 deadly sins of software companies that have entered the space. #3 is saying, 'We're just a technology company.'"

The clear leader in the space is FreeMarkets, but FreeMarkets has not reached a dominant position and may never do so. FreeMarkets has software products but the key value they've provided has come from their services and their expertise.

"FreeMarkets has performed an invaluable service for the space," says Dobrin, "because they've done the initial missionary work. They've proved to people that there's something there."

According to the report, the ERP vendors are quite far from making a showing in the space. Sourcing professionals have not gotten much value from ERP installations thus far, and they take a skeptical attitude toward what the applications can do now. "So far, the products announced by these vendors, are pure technologies," says Dobrin, "and that isn't enough. You need technology, intellectual capital, and

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rapid, provable benefit. People in sourcing are, quite naturally, difficult people to sell to. PowerPoint slides just doesn't do."

Other leaders in the space include Ariba, eBreviate (now A.T. Kearney Procurement Solutions), B2eMarkets, and i2. The report establishes a grading system for vendors. Most vendors' marks were low given the newness of the space and the immaturity of the products.

Editors note: This report was not commissioned or sponsored by any software vendor. B2B Analysts has a limit on revenues from software vendors; our policies may be viewed on the web at <http://www.b2banalysts.com/new/about/philosophy.html>.

About B2B Analysts

B2B Analysts is a small analyst firm in Cambridge, Massachusetts, whose focus is the intersection of innovation and value. Founded by David Dobrin, formerly of Benchmarking Partners, the company serves financial analysts, senior partners at consulting firms and CIOs with a mix of consulting and published research.

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